Hydro Québec

Quarterly Report

Third Quarter 2012

Message from the Chairman of the Board and the President and Chief Executive Officer

Third quarter

The **result from continuing operations** amounted to $376 million in the third quarter of 2012, compared to $404 million in 2011. The difference is due to a $61-million reduction in the net result from special contracts with certain large industrial customers in Québec on account of aluminum prices and the exchange rate, as well as to electricity purchases of $45 million from Rio Tinto Alcan. These factors were partly offset by a $51-million increase in revenue from net electricity exports by Hydro-Québec Production.

Summary of operations for the first three quarters

For the nine months ended September 30, 2012, the **result from continuing operations** was $2,121 million, compared to $2,271 million for the same period last year. The difference is partly attributable to a decrease in revenue from electricity sales in Québec owing to lower demand, mainly in the industrial sector, which had an impact of $89 million. It is also due to a $99-million decrease in the net result from special contracts with certain large industrial customers in Québec on account of aluminum prices and the exchange rate, as well as to electricity purchases of $119 million from Rio Tinto Alcan. These factors were partly offset by a $34-million increase in revenue from Hydro-Québec Production's net electricity exports and by a $47-million reduction in financial expenses. **Cash flows from operating activities** totaled $3,230 million as at September 30, 2012.

In September 2012, following the decision to abandon the project to refurbish Gentilly-2 nuclear generating station, Hydro-Québec posted a negative **result from discontinued operations** that essentially stems from the accounting treatment of the facility's definitive shutdown at the end of 2012. More specifically, the abandonment of the refurbishment project and the imminent shutdown of Gentilly-2 led to a write-off of $978 million in property, plant and equipment under construction and to the recognition of an asset impairment charge of $827 million, for a total of $1,805 million. The result from discontinued operations also includes a negative operating result of $51 million. It should be noted that this accounting treatment has no impact on the cash flows from operating activities.

When the discontinued operations are factored in, the **net result** for the first nine months of the year amounted to $265 million in 2012, compared to $2,237 million in 2011.

Consolidated operations for the first three quarters

Revenue totaled $9,006 million, compared to $9,132 million in 2011.

In Québec, revenue from electricity sales amounted to $7,674 million, or $317 million less than in 2011, mainly because of the effect of mild temperatures in 2012 and lower demand, especially in the industrial sector. Revenue from special contracts with certain large industrial customers was also lower than in 2011 on account of aluminum prices and the exchange rate.

On markets outside Québec, revenue from electricity sales was $961 million, comparable to last year's level.

Other revenue totaled $371 million, a $192-million increase over 2011 that is mainly due to the amounts that Hydro-Québec will be able to recover from customers, primarily for revenue variances related to climate conditions given the mild temperatures in 2012.

Total expenditure amounted to $5,086 million, or $71 million more than in 2011, mainly on account of the $119 million in electricity purchases from Rio Tinto Alcan. On the other hand, Hydro-Québec Production's short-term electricity purchases decreased by $66 million.

Segmented operations for the first three quarters

Generation

Hydro-Québec Production posted a **result from continuing operations** of $1,208 million, compared to $1,492 million in 2011. This $284-million decrease is due to an $89-million reduction in revenue from electricity sales to Hydro-Québec Distribution on account of the mild temperatures in 2012 and of lower demand in Québec. In addition, the net result from special contracts with certain large industrial customers in Québec, assumed by Hydro-Québec Production, was $99 million lower than in 2011 because of aluminum prices and the exchange rate, and the division made electricity purchases of $119 million from Rio Tinto Alcan. On the other hand, revenue from net electricity exports increased by $34 million with respect to last year.

Hydro-Québec Production also recorded a negative **result from discontinued operations** of $1,847 million on account of the definitive shutdown of Gentilly-2 nuclear generating station at the end of 2012.

Transmission

Hydro-Québec TransÉnergie's **result from continuing operations** was $478 million, a $54-million increase over 2011 that is due to a positive change of $25 million in the amounts that Hydro-Québec is entitled to recover from customers for variances in revenue from point-to-point transmission services, among other things. In addition, financial expenses decreased by $47 million.

Hydro-Québec TransÉnergie also posted a negative **result from discontinued operations** of $9 million on account of the definitive shutdown of Gentilly-2 nuclear generating station at the end of 2012.

Distribution

Hydro-Québec Distribution recorded a **result from continuing operations** of $346 million, an increase of $80 million over last year. Revenue from electricity sales decreased by $229 million, mainly on account of the mild temperatures in 2012 and lower demand, mostly in the industrial sector. This decrease was offset by a positive change of $152 million in the amounts that Hydro-Québec will be able to recover from customers, primarily for revenue variances related to climate conditions, as well as by a $108-million decrease in electricity purchases from Hydro-Québec Production and a $49-million reduction in financial expenses.

Construction

The Construction segment includes activities related to the projects carried out by Hydro-Québec Équipement et services partagés and by Société d'énergie de la Baie James (SEBJ).

Work handled by Hydro-Québec Équipement et services partagés totaled $1,429 million, compared to $1,245 million in 2011. Among other projects carried out for Hydro-Québec Production, the division continued construction of the Romaine complex. Work done for Hydro-Québec TransÉnergie included connecting Romaine-2 generating station, integrating output from wind farms as well as various projects stemming from continued investment in asset sustainment, among other things.

As for SEBJ, its volume of activity amounted to $122 million, compared to $244 million last year. In January 2012, the Eastmain-1-A/Sarcelle/Rupert project reached an important milestone with the commissioning of the last generating unit at Eastmain-1-A powerhouse.

Investment

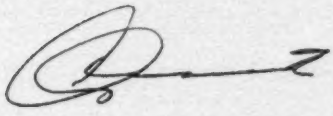
In the first nine months of 2012, Hydro-Québec invested $2,627 million in property, plant and equipment and intangible assets, including the Energy Efficiency Plan, compared to $2,619 million in 2011. As expected, a large portion of this amount was devoted to the major hydroelectric development projects of Hydro-Québec Production, especially Eastmain-1-A/Sarcelle/Rupert and the Romaine complex.

Hydro-Québec TransÉnergie continued investing in its transmission system. Work progressed on the 735-kV line that will connect Romaine-2 generating station with Arnaud substation. The division also carried on with its investments in maintenance and improvement to ensure the reliability and long-term operability of its transmission assets and enhance service quality.

Hydro-Québec Distribution kept up investments to handle the growth of its Québec customer base as well as to maintain and improve the quality of its facilities, especially those related to distribution system automation. It also continued implementation of the Energy Efficiency Plan.

Financing

During the third quarter of 2012, Hydro-Québec issued $500 million of debentures on the Canadian market, bearing interest at 5.00% and maturing in February 2050. This financing is in addition to the US$1,000 million raised in the first half of the year. The funds will be used to support part of the investment program and to refinance maturing debt.



Michael L. Turcotte

Chairman of the Board

Thierry Vandal

President and Chief Executive Officer

November 16, 2012

CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

CONSOLIDATED STATEMENTS OF OPERATIONS

In millions of Canadian dollars (unaudited)		Three months ended September 30		Nine months ended September 30	
	Notes	**2012**	2011	**2012**	2011
Revenue	3	**2,619**	2,611	**9,006**	9,132
Expenditure					
Operations		**551**	537	**1,770**	1,695
Electricity and fuel purchases		**295**	266	**901**	852
Depreciation and amortization	4	**576**	593	**1,740**	1,812
Taxes		**212**	202	**675**	656
		1,634	1,598	**5,086**	5,015
Operating result		**985**	1,013	**3,920**	4,117
Financial expenses	5	**609**	609	**1,799**	1,846
Result from continuing operations		**376**	404	**2,121**	2,271
Discontinued operations	6				
Operating result		**(28)**	(21)	**(51)**	(34)
Write-off of property, plant and equipment under construction		**(978)**	–	**(978)**	–
Impairment of nuclear generating station assets		**(827)**	–	**(827)**	–
Result from discontinued operations		**(1,833)**	(21)	**(1,856)**	(34)
Net result		**(1,457)**	383	**265**	2,237

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

In millions of Canadian dollars (unaudited)	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Balance, beginning of period	**16,340**	15,819	**14,618**	13,965
Net result	**(1,457)**	383	**265**	2,237
Balance, end of period	**14,883**	16,202	**14,883**	16,202

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

In millions of Canadian dollars (unaudited)	Notes	As at September 30, 2012	As at December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents		**1,095**	1,377
Short-term investments		**945**	1,102
Accounts receivable and other receivables		**1,509**	1,744
Derivative instruments		**1,476**	1,322
Regulatory assets		**20**	18
Materials, fuel and supplies		**193**	236
		5,238	5,799
Property, plant and equipment	7	**56,731**	56,901
Intangible assets		**2,133**	2,187
Investments		**136**	124
Derivative instruments		**1,187**	1,313
Regulatory assets		**10**	21
Other assets		**3,604**	3,292
		69,039	69,637
LIABILITIES			
Current liabilities			
Borrowings		**524**	52
Accounts payable and accrued liabilities		**1,800**	2,099
Dividend payable		**–**	1,958
Accrued interest		**466**	862
Asset retirement obligations	8	**114**	12
Derivative instruments		**629**	261
Current portion of long-term debt		**682**	1,025
		4,215	6,269
Long-term debt		**41,804**	40,744
Asset retirement obligations	8	**824**	528
Derivative instruments		**2,001**	2,098
Other long-term liabilities		**932**	883
Perpetual debt		**272**	281
		50,048	50,803
EQUITY			
Share capital		**4,374**	4,374
Retained earnings		**14,883**	14,618
Accumulated other comprehensive income		**(266)**	(158)
		14,617	14,460
		18,991	18,834
		69,039	69,637

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board of Directors,

Jacques Leblanc

Jacques Leblanc
Chair of the Audit Committee

Michael L. Turcotte
Chairman of the Board

CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions of Canadian dollars (unaudited)	Notes	Three months ended September 30		Nine months ended September 30	
		2012	2011	**2012**	2011
Operating activities					
Net result		**(1,457)**	383	**265**	2,237
Adjustments to determine net cash flows from operating activities					
Depreciation and amortization	4	**581**	598	**1,754**	1,826
Amortization of premiums, discounts and issue expenses related to debt securities	5	**57**	29	**213**	80
Write-off of property, plant and equipment under construction	6	**978**	–	**978**	–
Impairment of nuclear generating station assets	6	**827**	–	**827**	–
Other		**57**	(65)	**21**	187
Change in non-cash working capital items	9	**(103)**	198	**(531)**	(505)
Net change in accrued benefit assets and liabilities		**(101)**	(151)	**(297)**	(390)
		839	992	**3,230**	3,435
Investing activities					
Additions to property, plant and equipment		**(969)**	(865)	**(2,497)**	(2,429)
Additions to intangible assets		**(44)**	(62)	**(130)**	(190)
Cash receipts from the government reimbursement for the 1998 ice storm		**3**	2	**6**	5
Net disposal (acquisition) of short-term investments		**83**	(141)	**166**	797
Other		**4**	8	**92**	16
		(923)	(1,058)	**(2,363)**	(1,801)
Financing activities					
Issuance of long-term debt		**661**	593	**1,675**	4,090
Repayment of long-term debt		**(708)**	(520)	**(1,330)**	(2,553)
Cash receipts arising from credit risk management		**954**	1,188	**3,726**	2,982
Cash payments arising from credit risk management		**(1,548)**	(720)	**(3,724)**	(2,671)
Net change in borrowings		**(319)**	(70)	**468**	2
Dividend paid		**–**	–	**(1,958)**	(1,886)
Other		**(1)**	–	**(2)**	(1)
		(961)	471	**(1,145)**	(37)
Foreign currency effect on cash and cash equivalents		**(5)**	8	**(4)**	6
Net change in cash and cash equivalents		**(1,050)**	413	**(282)**	1,603
Cash and cash equivalents, beginning of period		**2,145**	1,270	**1,377**	80
Cash and cash equivalents, end of period		**1,095**	1,683	**1,095**	1,683
Supplementary cash flow information	9				

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

In millions of Canadian dollars (unaudited)	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Net result	**(1,457)**	383	**265**	2,237
Other comprehensive income				
Change in deferred (losses) gains on items designated as cash flow hedges	**(123)**	104	**102**	104
Reclassification to operations of deferred gains on items designated as cash flow hedges	**(68)**	(76)	**(210)**	(203)
	(191)	28	**(108)**	(99)
Comprehensive income	**(1,648)**	411	**157**	2,138

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

For the three- and nine-month periods ended September 30, 2012 and 2011

Amounts shown in tables are in millions of Canadian dollars.

Note 1 Basis of Presentation

In September 2010, the Canadian Accounting Standards Board (AcSB) authorized rate-regulated entities to defer the adoption of International Financial Reporting Standards (IFRS) until January 1, 2012, or the beginning of the first fiscal year starting after that date. In May 2012, the AcSB granted these entities an optional one-year extension to make the changeover to IFRS. Since Hydro-Québec was entitled to exercise these deferral rights, it opted to prepare its 2011 and 2012 financial statements in accordance with Canadian generally accepted accounting principles (GAAP) as set forth in Part V of the *Canadian Institute of Chartered Accountants Handbook*, "Pre-Changeover Accounting Standards." In October 2012, the AcSB granted rate-regulated entities an additional one-year extension to make the transition. Consequently, Hydro-Québec could decide to present its 2013 financial statements in accordance with Canadian GAAP.

Hydro-Québec's consolidated financial statements also reflect the decisions of the Régie de l'énergie (the "Régie"). These decisions may affect the timing of the recognition of certain transactions in the consolidated operations, resulting in the recognition of regulatory assets and liabilities, which Hydro-Québec considers it is likely to recover or settle subsequently through the rate-setting process.

The quarterly consolidated financial statements, including the present notes, do not contain all the required information regarding annual consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements and accompanying notes in Hydro-Québec's *Annual Report 2011*.

The accounting policies used to prepare the quarterly consolidated financial statements are consistent with those presented in Hydro-Québec's *Annual Report 2011*.

Hydro-Québec's quarterly results are not necessarily indicative of results for the year on account of seasonal temperature fluctuations. Because of higher electricity demand during winter months, revenue from electricity sales in Québec is higher during the first and fourth quarters.

Note 2 Effects of Rate Regulation on the Consolidated Financial Statements

Adoption of IFRS-compliant accounting policies

In decision D-2012-021 of March 2, 2012, the Régie authorized changes to certain accounting policies applied by the Transmission Provider and the Distributor for rate-setting purposes, in order to ensure compliance with IFRS.

These changes concern the recognition of costs related to the Energy Efficiency Plan according to IAS 38, *Intangible Assets*, the recognition of asset retirement obligations according to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, and the recognition of employee benefits according to IAS 19, *Employee Benefits*. In addition, the net amount of accrued benefit assets and liabilities is no longer included in the rate base. These changes have been taken into account in setting the 2012 rates of the Transmission Provider and the Distributor.

Transmission

In decision D-2012-066 of June 6, 2012, the Régie set Hydro-Québec's power transmission rates for 2012. The authorized return on the rate base was set at 6.84%, assuming a capitalization with 30% equity.

Distribution

In decision D-2012-035 of March 28, 2012, the Régie authorized an across-the-board reduction of 0.45% in Hydro-Québec's electricity rates, effective April 1, 2012. The authorized return on the rate base was set at 6.80%, assuming a capitalization with 35% equity.

In decision D-2012-024 of March 8, 2012, the Régie allowed the Distributor to create deferred-expense accounts bearing interest at the authorized rate on the rate base, in order to recognize expenses relating to projects of more than $10 million that were integrated into a rate application, but that are pending approval at the time the decision on the rate application is handed down. As at September 30, 2012, an amount of $9 million had been recognized as a regulatory asset in this regard.

Note 3 Revenue

	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Electricity sales[a]	**2,538**	2,532	**8,635**	8,953
Other	**81**	79	**371**	179
	2,619	2,611	**9,006**	9,132

a) Including unbilled electricity deliveries, which totaled $631 million as at September 30, 2012 ($632 million as at September 30, 2011).

Note 4 Depreciation and Amortization

	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Property, plant and equipment[a]	**495**	547	**1,516**	1,623
Intangible assets	**61**	53	**181**	158
Regulatory assets	**4**	1	**15**	9
Disposals of capital assets	**16**	(8)	**28**	22
	576[b]	593[b]	**1,740**[b]	1,812[b]

a) The revision of the useful life of property, plant and equipment in 2012 resulted in a $54-million decrease in the depreciation expense for the three months ended September 30, 2012, and in a $129-million decrease for the nine months then ended. For 2012, it should result in a decrease on the order of $183 million. As part of this revision, the maximum depreciation period for some hydroelectric generation assets increased from 100 to 120 years, while the maximum period for certain transmission line and substation assets increased from 50 to 70 years and for certain distribution line and substation assets, from 40 to 60 years. The 2011 revision had no significant impact on the depreciation expense for the three- and nine-month periods ended September 30, 2011.

b) The depreciation and amortization expense presented in the consolidated statements of cash flows also includes an amount of $5 million for assets related to discontinued operations for the three months ended September 30, 2012 ($5 million in 2011) and of $14 million for the nine months then ended ($14 million in 2011).

Note 5 Financial Expenses

	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Interest				
Interest on debt securities	**588**	630	**1,684**	1,873
Amortization of premiums, discounts and issue expenses related to debt securities	**57**	29	**213**	80
	645	659	**1,897**	1,953
Net exchange loss (gain)	**5**	(21)	**5**	(12)
Guarantee fees related to debt securities	**50**	47	**148**	141
	55	26	**153**	129
Less				
Capitalized financial expenses	**84**	72	**231**	226
Net investment income	**7**	4	**20**	10
	91	76	**251**	236
	609	609	**1,799**	1,846

Note 6 Discontinued Operations

In September 2012, the decision was made to abandon the project to refurbish Gentilly-2 nuclear generating station. The facility will continue to generate electricity until the end of 2012, in accordance with the terms and conditions of its operating licence, after which time Hydro-Québec will start to prepare it for dormancy with a view to dismantling it around the year 2060.

The abandonment of the refurbishment project led to the write-off of the property, plant and equipment under construction as part of this project, for a total amount of $978 million.

Gentilly-2's operating result is presented under discontinued operations in the consolidated statements of operations for all periods concerned. For segmented information purposes, these activities are classified under Generation and Transmission.

In addition, as indicated in Note 8, Asset Retirement Obligations, Hydro-Québec had to review the key assumptions underlying the calculation parameters and estimated amount of the asset retirement obligations related to the dismantling of Gentilly-2 at the end of its useful life, particularly as regards the start date of work, which was moved forward. This review resulted in a $365-million increase in the asset retirement obligations related to the facility and in the facility's carrying amount.

Since the refurbishment project was abandoned, Hydro-Québec also had to test the nuclear facility's assets for impairment. The carrying amount of these assets, including the increase in the asset retirement obligations related to the facility's dismantling, was compared to their fair value, which was determined using the discounted cash flow method. As a result, an impairment charge of $827 million was recognized.

The following table provides a breakdown of the result from discontinued operations:

	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Operating result				
Revenue	**14**	33	**102**	139
Expenditure	**42**	54	**153**	173
	(28)	(21)	**(51)**	(34)
Write-off of property, plant and equipment under construction	**(978)**	–	**(978)**	–
Impairment of nuclear generating station assets				
Property, plant and equipment[a]	**(795)**	–	**(795)**	–
Materials, fuel and supplies	**(32)**	–	**(32)**	–
	(827)	–	**(827)**	–
	(1,833)	(21)	**(1,856)**	(34)

a) Including the $365-million increase in asset retirement obligations related to the generating station's dismantling.

Note 7 Property, Plant and Equipment

				As at September 30, 2012
	In service	Accumulated depreciation	Under construction	Net carrying amount
Generation				
Hydraulic	40,140	14,678	3,566	**29,028**
Thermal	781	733	1	**49**
Nuclear[a]	2,329	2,329	–	**–**
Other[a]	769	478	20	**311**
	44,019	18,218	3,587	**29,388**
Transmission				
Lines and substations[a]	24,575	9,185	1,468	**16,858**
Other[a]	2,237	1,344	157	**1,050**
	26,812	10,529	1,625	**17,908**
Distribution				
Lines and substations	13,334	5,832	430	**7,932**
Other	2,031	1,155	165	**1,041**
	15,365	6,987	595	**8,973**
Construction	28	17	1	**12**
Corporate and Other Activities	1,098	736	88	**450**
	87,322	36,487	5,896	**56,731**

a) The abandonment of the project to refurbish Gentilly-2 nuclear generating station led to the recognition of an impairment charge of $795 million for property, plant and equipment in service and to a write-off of $978 million in property, plant and equipment under construction as at September 30, 2012, as indicated in Note 6, Discontinued Operations.

				As at December 31, 2011
	In service	Accumulated depreciation	Under construction	Net carrying amount
Generation				
Hydraulic	39,723	14,205	2,857	28,375
Thermal	782	721	–	61
Nuclear	1,921	1,550	852	1,223
Other	764	441	15	338
	43,190	16,917	3,724	29,997
Transmission				
Lines and substations	24,478	8,729	806	16,555
Other	2,248	1,318	104	1,034
	26,726	10,047	910	17,589
Distribution				
Lines and substations	13,082	5,605	375	7,852
Other	2,001	1,113	120	1,008
	15,083	6,718	495	8,860
Construction	27	16	1	12
Corporate and Other Activities	1,085	700	58	443
	86,111	34,398	5,188	56,901

Note 8 Asset Retirement Obligations

The abandonment of the project to refurbish Gentilly-2 nuclear generating station, as indicated in Note 6, Discontinued Operations, prompted a review of the key assumptions underlying the calculation parameters and estimated amount of the asset retirement obligations related to the dismantling of the facility at the end of its useful life. The main impact of this review was to advance the start of work by 27 years.

The aggregate carrying amount of the asset retirement obligations is as follows:

				As at September 30, 2012	As at December 31, 2011
	Dismantling of nuclear generating station	Removal of spent nuclear fuel	Dismantling of other assets	Total	Total
Balance, beginning of period	208	201	131	**540**	504
Liabilities incurred	–	12	–	**12**	21
Accretion expense	8	13	4	**25**	34
Liabilities settled	–	(1)	(3)	**(4)**	(4)
Revision of estimated cash flows and expected timing of payments	365	–	–	**365**	(15)
Balance, end of period	581	225	132	**938**	540
Less					
Current portion	92	2	20	**114**	12
	489	223	112	**824**	528

The carrying amount of the asset retirement obligations is based on the following key assumptions:

	Dismantling of nuclear generating station	Removal of spent nuclear fuel	Dismantling of other assets
Estimated cash flows (in constant dollars) required to settle the obligations[a]			
As at September 30, 2012	1,186	662	171
As at December 31, 2011	951	624	173
Expected timing of payment of the cash flows required to settle the obligations			
As at September 30, 2012	Between 2013 and 2062	Between 2012 and 2164	Between 2012 and 2092
As at December 31, 2011	Between 2040 and 2071	Between 2012 and 2164	Between 2012 and 2092
Credit quality–adjusted, risk-free rate (%)			
Initial recognition of obligations	6.4	6.4	Between 1.0 and 6.4
Subsequent recognition of obligations	Between 5.0 and 5.7	5.5 and 5.7	Between 1.3 and 6.1

a) Inflation rates ranging between 1.9% and 3.7% were used to determine the asset retirement obligations.

Note 9 Supplementary Cash Flow Information

	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Change in non-cash working capital items				
Accounts receivable and other receivables	**290**	488	**231**	174
Materials, fuel and supplies	**12**	31	**11**	60
Accounts payable and accrued liabilities	**(49)**	59	**(350)**	(307)
Accrued interest	**(356)**	(380)	**(423)**	(432)
	(103)	198	**(531)**	(505)
Investing activities not affecting cash				
Increase in property, plant and equipment and intangible assets	**631**	25	**679**	50
Interest paid	**822**	920	**1 841**	2 039

Note 10 Employee Future Benefits

			Three months ended September 30	
	Pension Plan		Other plans	
	2012	2011	**2012**	2011
Accrued benefit cost	**51**	31	**28**	22

			Nine months ended September 30	
	Pension Plan		Other plans	
	2012	2011	**2012**	2011
Accrued benefit cost	**153**	91	**84**	84

Note 11 Segmented Information

The following tables contain information related to operations and assets by segment

							Three months ended September 30, 2012
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	403	24	2,178	–	8	6[a]	**2,619**
Intersegment customers	984	754	19	635	363	(2,755)	–
Result from continuing operations	280	161	(125)	–	60	–	**376**
Result from discontinued operations	(1,824)	(9)	–	–	–	–	**(1,833)**
Net result	(1,544)	152	(125)	–	60	–	**(1,457)**
Total assets as at September 30, 2012	31,039	18,865	12,828	422	6,096	(211)	**69,039**

a) Resales of excess supply by Hydro-Québec Distribution on outside markets are presented as offsets of electricity purchases rather than in Revenue.

							Three months ended September 30, 2011
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	371	26	2,181	–	33	–	2,611
Intersegment customers	1,028	750	17	543	337	(2,675)	–
Result from continuing operations	335	157	(165)	–	77	–	404
Result from discontinued operations	(21)	–	–	–	–	–	(21)
Net result	314	157	(165)	–	77	–	383
Total assets as at September 30, 2011	31,239	18,346	12,629	446	5,702	(293)	68,069

Note 11 Segmented Information (continued)

	Nine months ended September 30, 2012						
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	1,043	83	7,842	–	32	6[a]	**9,006**
Intersegment customers	3,483	2,248	56	1,551	1,073	(8,411)	–
Result from continuing operations	1,208	478	346	–	89	–	**2,121**
Result from discontinued operations	(1,847)	(9)	–	–	–	–	**(1,856)**
Net result	(639)	469	346	–	89	–	**265**
Total assets as at September 30, 2012	31,039	18,865	12,828	422	6,096	(211)	**69,039**

a) Resales of excess supply by Hydro-Québec Distribution on outside markets are presented as offsets of electricity purchases rather than in Revenue.

	Nine months ended September 30, 2011						
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	1,085	79	7,920	–	48	–	9,132
Intersegment customers	3,673	2,242	55	1,489	1,035	(8,494)	–
Result from continuing operations	1,492	424	266	–	86	3	2,271
Result from discontinued operations	(34)	–	–	–	–	–	(34)
Net result	1,458	424	266	–	86	3	2,237
Total assets as at September 30, 2011	31,239	18,346	12,629	446	5,702	(293)	68,069

Note 12 Comparative Information

Some corresponding period data of the previous year have been reclassified to conform to the presentation adopted in the current periods or in accordance with the changes to accounting policies described in Note 2 to the consolidated financial statements published in Hydro-Québec's *Annual Report 2011*.

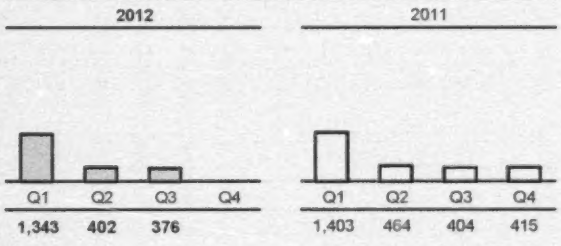
CONSOLIDATED FINANCIAL HIGHLIGHTS

(UNAUDITED)

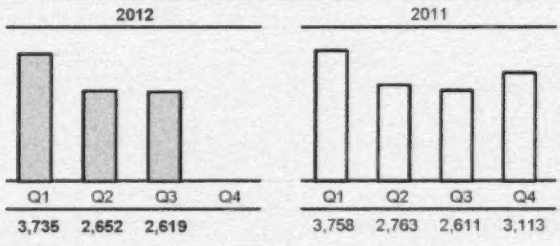
Amounts shown in tables are in millions of Canadian dollars.

	Three months ended September 30				Nine months ended September 30			
Summary of Operations	**2012**	2011	Change (%)		**2012**	2011	Change (%)	
Revenue	**2,619**	2,611	0.3	↑	**9,006**	9,132	1.4	↓
Expenditure	**1,634**	1,598	2.3	↑	**5,086**	5,015	1.4	↑
Financial expenses	**609**	609	–	–	**1,799**	1,846	2.5	↓
Result from continuing operations	**376**	404	6.9	↓	**2,121**	2,271	6.6	↓
Result from discontinued operations	**(1,833)**	(21)	–	↓	**(1,856)**	(34)	–	↓
Net result	**(1,457)**	383	–	↓	**265**	2,237	88.2	↓

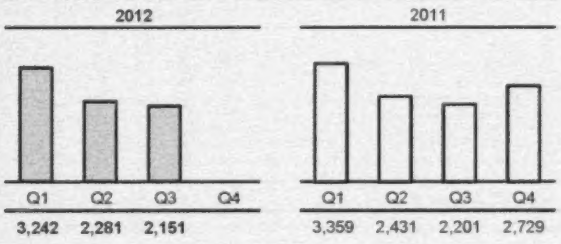
Result from Continuing Operations



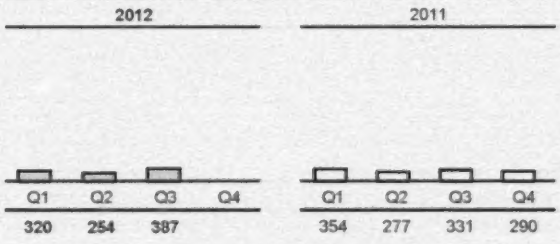
Revenue



Revenue from Electricity Sales in Québec



Revenue from Electricity Sales Outside Québec



Note: Throughout the Consolidated Financial Highlights, certain comparative figures have been reclassified to conform to the presentation adopted in the current periods.

Quarter Highlights

Distribution

Rate adjustment application

In July, Hydro-Québec Distribution filed an application with the Régie de l'énergie for a rate adjustment of 2.9%, effective April 1, 2013.

Power purchase program for electricity produced by forest biomass

Also in July, the Régie approved the change to the power purchase program for electricity produced by forest biomass cogeneration. This change was filed in response to the Québec government's decision to raise the program's target to 300 MW. During the quarter, Hydro-Québec Distribution signed three new contracts for the purchase of electricity under this program, for a total of 69.3 MW.

Technological innovation

2012 CIGRÉ Canada Conference

Hydro-Québec hosted the 7th annual conference of the International Council on Large Electric Systems (CIGRÉ) Canada, held in Montréal from September 24 to 26 on the theme *Technology and Innovation for the Evolving Power Grid*. The event, which was organized by Hydro-Québec's research institute and other Hydro-Québec units, brought together over 400 participants from 22 countries. All industry players were represented: transmission system operators, manufacturers, engineers, researchers, regulators and academics.

Transportation electrification

The Electric Circuit welcomes new partners

During the quarter, the founding partners of The Electric Circuit—Les Rôtisseries St-Hubert, RONA, METRO, the Agence métropolitaine de transport and Hydro-Québec—announced that agreements to install public charging stations had been signed with Aéroports de Montréal, the city of Sherbrooke and other organizations in the region, the Auberge Internationale du Témiscouata, the burrough of Saint-Laurent and Place des Arts in Montréal, and Discount Car and Truck Rentals.

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